

C O N F I D E N T I A L SECTION 01 OF 07 MAPUTO 001007

SIPDIS

DEPT FOR AF/FO, AF/S, AF/RSA

E.O. 12958: DECL: 07/10/2013

TAGS: [PREL](#) [PGOV](#) [PAID](#) [EINV](#) [MZ](#) [HIV](#) [AIDS](#) [PEPFAR](#)

SUBJECT: AMBASSADOR'S END-OF-TOUR REPORT

Classified By: Ambassador Sharon P. Wilkinson, for reasons 1.5 (b) and (d)

¶1. (U) Summary. Bilateral political and economic relations between the U.S. and Mozambique have improved and deepened. At a political level, bilateral cooperation is excellent, with Washington acknowledging the impressive transition to democracy and the GRM willing to cooperate with the U.S., for example on Article 98. The Mozambican profile will rise with the assumption of the AU Presidency in July. On the economic front, Mozambique is one of the continent's best performers, albeit from a low base, with the U.S. now poised to take a larger role in trade and investment. The recent "B" sovereign credit rating and OPIC engagement enhance the potential. The country remains dependent on donor support, where the U.S. takes a leading role. Reduction of absolute poverty is the priority, and our efforts are focused on economic growth, limiting the effects of HIV/AIDS and other diseases, and strengthening governance. The U.S. has also successfully led the effort to address the landmine problem. Corruption is one of the greatest threats to continued progress on the economic and political fronts. The GRM has taken encouraging action to address the problem, and the U.S. actively supports these efforts with inter-agency assistance. Key areas where we need to maintain focus are corruption, HIV/AIDS, further consolidation of democracy, education and counter terrorism.

¶2. (C) Summary continued. 2003 municipal and 2004 national elections when President Chissano will step down will change the political landscape. RENAMO will have at least moderate success in the municipal elections, assuming governing responsibilities for the first time; the party is not well prepared for this eventuality. The 2004 races are too distant to predict, however, both Presidential candidates face significant hurdles. FRELIMO candidate Armando Guebuza has credible experience, but must address negative public association in the perceptions of past corruption and tough policies during the Samora Machel administration. Voters may also make the emotional decision that after 30 years of FRELIMO rule, it is time for a change. The perennial opposition leader and Presidential candidate, RENAMO Afonso Dhlakama, lacks credibility, experience, and financing. Likely third-party candidate Raul Domingos will not win but could be the swing vote. Regardless of the outcome, the U.S. will have no difficulty in maintaining the positive engagement with the government and people of Mozambique that we have enjoyed to date. End summary.

POLITICAL RELATIONS

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¶3. (U) Political relations between the U.S. and Mozambique improved and deepened over the last three years. The U.S. has appropriately acknowledged President Chissano's vision and personal efforts which have been instrumental in the transition to a stable multi-party, free-market oriented democracy. The GRM greatly values this recognition and high-level attention from Washington, including last year's Southern African Mini Summit and President Bush's participation with President Chissano in last month's Corporate Council on Africa Washington Summit. Examples of the GRM's commitment to our bilateral relationship include our recent conclusion of an Article 98 Agreement and GRM ratification of all 12 UN counter-terrorism conventions.

¶4. (SBU) On the regional stage, Mozambique has played an increasingly visible role. Maputo has just successfully hosted the second African Union (AU) Summit and President Chissano assumed the AU Presidency for the next year. We expect the GRM to expand on the active role played during its chairmanship of the SADC Organ on Politics, Defense and Security, where Chissano and FM Simao placed Mozambique at the center of diplomatic efforts in Zimbabwe, Burundi, DROC, and the Comoros. The AU Presidency will be an ideal forum for President Chissano to bolster his already high stature as one of the continent's elder statesman, before retiring from office in 2004. We expect Chissano will be a forceful advocate for NEPAD with its inherent focus on good governance, peer review, and African solutions for African problems. He is unlikely to speak out publicly against President Mugabe's policies, leaving that to President Mbeki and President Obasanjo.

ECONOMIC PERFORMANCE AND INVESTMENT

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15. (U) The economy grew at 8 percent in 2002 and is poised to remain between seven and ten percent over the next few years. Inflation fell from over 20 percent in 2001 to nine percent in 2003 due to a tightening of monetary policy and the gradual recovery from the devastating 2000 floods. This growth, the result of sustained reforms and sound macroeconomic management, as mandated by the IMF and World Bank, have made Mozambique a viable destination for foreign direct investment (FDI), particularly in sectors exploiting the country's vast but largely untapped natural resources. Confirmation of this positive picture is the "B/B" credit rating assigned to Mozambique by Fitch Ratings in July 2003

16. (U) Mozambique receives substantial FDI, but, so far, the U.S. has not been one of the major players. (By 2001 revenues, Mobil Oil is the 12th largest firm in country, Coca-Cola 13th, with four others in the top 100.) This situation is set to change. OPIC is providing nearly \$30 million for a U.S.-led consortium rehabilitation of the port and rail facilities and acquisition of the concessions to run the operations in the Nacala Corridor, a crucial transportation route linking Northern Mozambique, Malawi, and Zambia. The efficient operation of the route should engender substantial investments in areas such as mining and agriculture. OPIC is also involved in a major eco-tourism project; eco-tourism is an industry set to boom in Mozambique and it is a USAID focus area for export-led growth and job creation. A U.S. construction firm has been contracted to build a \$200million mineral sands project in Nampula province and a U.S./Norwegian partnership just signed an agreement to prospect for natural gas in Sofala province. Several other U.S. investments are also in the pipeline.

17. (U) Mozambique has had moderate success in taking advantage of AGOA. In 2002, 750,000 garments were exported, up from a base of none the year before. Last month, the first-ever exports of top-quality Mozambican prawns arrived in the U.S. We recently learned of new legislative initiatives to remove import duties for certain categories of components for products made in Mozambique.

DEVELOPMENT ASSISTANCE AND DONOR PARTNERS

18. (U) Donor partners fund approximately 60 percent of the national budget through either direct budget support or through programs and projects designed to supplement GRM-provided services. About 23 bilateral donors and a string of smaller partners contribute to the disbursed aid funds. In addition, 25 multilateral agencies and up to 150 international NGOs/PVOs offer grants, loans, or technical assistance.

19. (U) USAID and the other donor partners do not operate in a vacuum in Mozambique. There is a clear trend among donors in Mozambique to move toward harmonized forms of aid, whether through budget support or through pooling and sector-wide approaches. Donor funding for 2002 included budget support (\$100 million); sector and pooled support (\$100 million) and other projects (\$500 million). Apart from pooling funding and technical assistance, organized dialogue between donors and between government and donors illustrates another form of harmonization and coordination. USAID is an integral part of this process. With our donor partners, we are encouraging a greater focus on corruption, and support for conditionality of assistance in return for policy reform.

10. (U) As the role of USAID has expanded over the last nearly 20 years, our strategies have been fine-tuned. USAID's Country Strategic Plan from 1996 to present focused on increasing rural incomes, making government accountable to citizens, improving health, and creating a better business environment. The new strategic plan for 2004-2010 will build on this experience to create broad-based, rapid economic growth sustained through expanded capacities and opportunities. The five strategic objects that will be utilized to achieve this are increasing rural economic growth, focusing on labor intensive exports, helping local government become more democratic, improving health services for children and reproductive health, and finally working towards behavior changes which will result in preventing new cases of HIV/AIDS while also caring for those already suffering from this disease. With this central and strategic objectives in mind, USAID stays true to its support of the GRM PARPA (Action Plan for the Reduction of Absolute Poverty) as each objective contributes to at least one of the PARPA's priorities.

11. (SBU) The GRM is, of course, anxiously awaiting appropriation of the Millennium Challenge Account (MCA) funds. We fully expect Mozambique to qualify; failure to do so would be a major blow, given the country's impressive and sustained policy strides of the last ten years.

HIV/AIDS AND HEALTH

12. (SBU) The Mozambican Government has been an outspoken

advocate in the battle against HIV/AIDS, led by Prime Minister Mocumbi who heads the National AIDS Council. (Comment. A European trained physician, Mocumbi last year ran a strong but ultimately unsuccessful campaign for the World Health Organization Director Generalship. It is an open secret that Mocumbi, at ease in the international arena, is interested in exploring outside job possibilities and could well end up elsewhere in the international health field. End Comment.) The GRM is committed to forceful action and outspoken advocacy as essential to contain and diminish the infection rate, which is currently 12 percent.

¶13. (U) The U.S. is actively engaged in the health sector, both through growing USG programs as well as private organizations, including the Gates Foundation, Clinton Foundation, and numerous NGOs. USAID direct assistance has provided technical assistance, training, and commodities to improve the public health system and enable key Mozambican organizations to lead HIV/AIDS prevention. This assistance has been successful in shifting health service delivery from international to local institutions, including a revitalized Ministry of Health (MOH). Similarly, CDC has enjoyed success in its dealings with the MOH in the implementation of surveillance of HIV, voluntary counseling and testing (VCT), and planning, monitoring and evaluation of HIV/AIDS activities. In calendar year 2004, the CDC Global AIDS Program (GAP) will begin support to the MOH in the implementation of prevention of mother-to-child transmission activities, including the treatment of AIDS patients. The Department of Labor is funding \$900,000 to address HIV/AIDS in the workplace and Peace Corps works actively in HIV prevention through classroom instruction and other outreach programs. In calendar year 2004 they will welcome the first group of volunteers in the health sector. For all the efforts and success needs remain high and Mozambique is poised and eager to participate in President Bush's \$15 million Emergency Plan for AIDS Relief.

DEMINING

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¶14. (U) Landmines, both from the colonial struggle and the civil war, have taken an enormous toll on Mozambique, both economically and socially. The USG, first through DOD (\$11.5 million) and for the last 3-4 years primarily through PM/HDP (\$10.5 million), has been one of the leading donors helping the GRM to demine. We have supported numerous demining projects implemented by RONCO, based in Beira, Sofala province. Support has also included capacity-building of the National Demining Institute (IND) and the Mozambican Armed Forces (FADM) Demining Brigade in the form of training and equipment. This year, at the request of the GRM, RONCO completed demining the Sena rail line, a once flourishing transportation route linking Dondo (near Beira port) to the Malawi border, which now can be refurbished. This year our focus shifted from the central provinces to the north, with \$2.5 million in PM/HDP funds going to clear Portuguese-laid minefields along the border with Tanzania. After more than ten years of effort, Mozambique is approaching, but not yet at, the point where the high-impact mine problem will have been sufficiently overcome. Though we expect funding levels for Mozambican demining to decrease due to the obvious need to deal with new mine hotspots like Afghanistan, Iraq and Angola, we need to stay the course to ensure the completion of this task, essential for Mozambican development.

¶15. (U) We are particularly pleased with the work of the Department of State-funded Quick Reaction Demining Force (QRDF), also operated by RONCO; we have worked actively to publicize its successes. QRDF teams, with virtually all Mozambican deminers, have been successfully deployed to Sudan, Nigeria, Sri Lanka, and, now, Iraq. While not deployed, QRDF teams have completed high-priority tasks inside Mozambique, such as recent power line demining work that was requested by the Governor of Sofala province. The effectiveness of the Mozambican teams in challenging international environments is on source of pride for Mozambique and an example of our bilateral cooperation.

ANTI-CORRUPTION EFFORTS

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¶16. (SBU) Corruption is pervasive in Mozambique. It not only hampers development of trade and investment, but has a nexus with money-laundering and trafficking in narcotics and persons. A 2001 survey, funded by USAID and carried out by the local civil society organization, ETICA, showed that 66 percent of respondents had paid or been solicited for a bribe by a public official in the prior six-month period. This had never been done before in Mozambique, and was a useful tool for opening public discussion of corruption. Conflicts of interest for senior public officials are common, where they use public office to benefit private business interests. Prosecutions for corruption-related offenses are still rare. The assassinations of investigative journalist Carlos Cardoso and bank official Antonio Siba-Siba Macuacua, both linked to corruption at failed banks in which the government exercised significant control, have galvanized public opinion

against corruption.

¶17. (U) The appointment of a new Attorney General, Joaquim Madeira, a former Supreme Court Justice, signaled a noticeably stronger official stance against corruption. Madeira shocked the political establishment in his 2001 parliamentary address, promising to take strong action against corruption. He fired members of his own staff, forced the removal of judges, and created a specialized anti-corruption unit to pursue corruption cases. With USAID, INL and other funding, we have actively supported this unit, renovating offices, donating equipment, and providing extensive training, FBI courses and OPDAT advisor visits. This unit is an increasingly important anti-corruption player. Its resources are dwarfed by the scale of the problem, and we plan continued and expanded support for it. In addition to the work with the anti-corruption unit, we have built a constructive relationship with the National Police Academy (ACIPOL), supported by INL funds, where we expect that enhancing law enforcement capacity, beginning with fresh recruits, will in the long run strengthen anti-corruption efforts. A measure of success is the request for training from the Director of Customs, one of the most corrupt organizations in Mozambique.

¶18. (C) The highly publicized Cardoso trial, which many thought would never happen, was a watershed in the fight against corruption, but it was only an initial step. Those implicated in ordering the assassination, including President Chissano's son, have yet to be brought to justice. Other high-profile cases are also pending. Perception of widespread corruption among the political elite in Maputo is one of the areas where FRELIMO is most vulnerable heading into upcoming elections. RENAMO and the smaller opposition parties harp constantly on corruption, but many sanguine observers believe that, if in power, RENAMO would also be plagued by corruption.

THE POLITICAL FUTURE

¶19. (C) Municipal elections, scheduled to be held in November 2003, will mark a new phase in Mozambican democracy when, for the first time, some RENAMO candidates should find themselves in governance positions. No scientific polling exists in Mozambique, but based on our own up-country travel and 1999 election results, we expect RENAMO to win approximately 15 of the 33 races. FRELIMO should retain all 10 municipalities in the three southern provinces and most in the traditional northern strongholds of Cabo Delgado as well as Niassa. However, RENAMO should have a strong showing in the central provinces of Sofala, Manica, Zambezia, and Tete, as well as the five municipalities in Nampula. Though municipalities do not yet play a large political or economic role in a still very centralized Mozambique, RENAMO gaining at least some power will have the symbolic importance of shattering the myth of FRELIMO invincibility.

¶20. (C) To some extent, the municipal election outcomes will be harbingers of the December 2004 national elections. While we believe the 2004 elections are FRELIMO's to lose, we are not yet ready to call the winner. With only one year between the contests, a particularly strong showing by RENAMO in the municipal contests, perhaps a better than expected showing in the north and central and/or a win in a traditionally FRELIMO stronghold in the south, would be a strong indicator of Mozambicans' desire for change at a national level. Conversely, FRELIMO holding RENAMO to ten or fewer municipalities in their traditional central strongholds would bode well for FRELIMO's chances in 2004.

PARTY LEADERSHIP

¶21. (C) FRELIMO Secretary General and Presidential candidate Armando Guebuza is known as a decisive, capable leader. He has impressive government credentials as a former Minister of Interior, Minister of Transportation, and parliamentary leader. He has been one of FRELIMO's most forceful backers of free market structural reforms and in the 90s became one of the country's wealthiest and most successful businessmen. However, Guebuza faces several electoral challenges. Foremost are the rumors of corruption, both from shenanigans during the privatization of government companies as well as alleged involvement in other illicit activities. We expect Guebuza will make cracking down on corruption a top campaign priority to counter this image. He has already given indications of this in public and private gatherings. Though engaging on a personal level, Guebuza is less charismatic than Chissano. Also, regional equities may work against him. Though born in Nampula to a northern Makua mother, Guebuza is much more closely associated with the south, having a southern father and having been raised in Maputo. The perception in the central and northern regions is that the south has received the lion's share of development resources, and another southerner (like Chissano and Machel) would only continue this pattern.

¶22. (C) RENAMO leader Afonso Dhlakama also faces

challenges. First, there is a credibility issue, as both he and his party lack any governing experience. Also, RENAMO lacks the financial resources to wage an effective campaign. FRELIMO controls the government apparatus and patronage which it will fully use to its advantage. RENAMO has yet to articulate an election strategy or platform. After more than ten years in Maputo, Dhlakama has earned an image of perennial opposition leader, living the life of leisure in Maputo, increasingly out of touch with his rural base in the central region. Nevertheless, he has enormous name recognition and will draw support not only from diehard RENAMO backers, but also from disenchanted FRELIMO members and, potentially, new voters.

¶23. (C) A huge unknown for the 2004 presidential and legislative contest is what role former RENAMO number two Raul Domingos will play. Domingos, on track with what he has told us over the last year, is on his way to forming his own political party. Still a member of the National Assembly, Domingos remains in the public spotlight, and he has been traveling extensively throughout the country. Based on our travels, the presence of the NGO Domingos founded, IPADE, particularly in Tete and Manica provinces, has been notable. However, IPADE is very weak or non-existent in other parts of the country. How much support Domingos and his party would have at a national level is unclear, but we do not see him getting more than 5-10 percent of the vote. A Domingos candidacy is likely to play a spoiler function. Though Domingos could conceivably take some votes from FRELIMO members unhappy with corruption and other problems, Dhlakama is the more likely victim of a Domingos run. Dhlakama's autocratic style and perceived distancing from his rural, grassroots support could cost him votes. Also, an ethnic split is conceivable, with Senas abandoning Ndau Dhlakama for fellow Sena Domingos. The source of Domingos' funding, for IPADE and his future party, is unclear. RENAMO leadership and media outlets have insinuated that FRELIMO is backing Domingos in order to split the opposition, a charge not without some plausibility.

PLAYERS IN A GUEBUZA OR DHLAKAMA ADMINISTRATION

¶24. (C) Regardless of who wins in 2004, most of the interlocutors Washington and the Mission have come to know well will change. Under Guebuza, we would expect to see most Chissano-appointed ministers gone, certainly Prime Minister Mocumbi, Foreign Minister Simao, Finance Minister Diogo, Transport Minister Salomao, Health Minister Songane and Agriculture Minister Muteia, and possibly Industry and Commerce Minister Morgado. Possible holdovers are Mineral Resources and Energy Minister Langa and Defense Minister Dai, Guebuza's brother-in-law, though with different portfolios. Prominent governors from Sofala, Nampula, and Cabo Delgado could also turn up as ministers.

¶25. (C) Though they are unlikely to take a cabinet or otherwise public position, influential FRELIMO members will continue to play crucial policy roles behind the scenes. First on this list is President Chissano, who will remain head of FRELIMO. Other major players in FRELIMO's central committee, including Alberto Chipande and Rafael Maguni (respectively Ministers of Defense and Information under Samora Machel), will likewise continue behind the scenes. Another major player, and a potential 2009 Presidential candidate, is Graca Machel, Samora Machel's widow and the current wife of Nelson Mandela.

¶26. (C) A Dhlakama victory would bring many challenges for RENAMO. One of the first would be coming up with capable, if not experienced, personalities for key positions. Dhlakama's autocratic style has driven out major players such as Domingos and former RENAMO Secretary General Joaquim Vaz. Dhlakama has continually given us the encouraging message that technocratic-level public workers would be retained. But the sheer number of political-level appointments required - Minister, Vice Minister, National Directors at 22 ministries, governors, and Ambassadors - dwarfs such assurances. In their meeting following his May 2003 U.S. visit, Dhlakama told the Ambassador that a committee of 44 individuals already existed, drawn from business and academia. Presumably, political appointees would be drawn from this group. RENAMO's relationship with its Electoral Union (UE) coalition partners remains fractious. However, ultimately we would expect to see small party leaders, many of whom provide the intellectual backbone of the opposition, take on important portfolios. Attorney Maximo Dias of MONAMO and engineer Lutero Simango of PCN fall into this category. We would expect no current FRELIMO ministers to participate in a Dhlakama administration in any way.

¶27. (C) Should RENAMO win in 2004, an orderly political transition would demonstrate the solidity of Mozambican democracy, specifically FRELIMO's commitment to it. A graceful loss would confirm its own self-proclaimed commitment to democracy and peace. While a RENAMO win might be a good democracy story, it would certainly make for

difficult times in Mozambique. On policy, RENAMO would likely continue the positive reforms of FRELIMO and perhaps move closer to U.S. position in other areas (e.g., allowing land ownership, support for the U.S. in Iraq, a harder line on Mugabe, etc.). However, the expected disarray of a Dhlakama administration, at least initially, would require not only patience but significant additional support. Implementation of our myriad assistance programs would be extremely challenging, especially if FRELIMO-aligned technocrats were replaced with less experienced or unqualified RENAMO functionaries.

WHAT THE USG SHOULD FOCUS ON

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128. (U) The FY-05 MPP lays out the Mission's overall key objectives. There are several areas in particular the USG should concentrate its efforts. One is elevating the policy dialogue on corruption. Failure to win this battle could derail all the other important economic reforms Mozambique has implemented, and reduce foreign investment incentives needed to generate economic growth. For significant poverty reduction, Mozambique must reduce red tape and other barriers. Continued USG support for the HIV/AIDS battle is crucial to staunch, then reverse, the ravages of the pandemic. Finally, though Mozambique has been a model for the transition to democracy, we should not lose sight of just how young the democracy is. Beyond just election monitoring, we should continue efforts to consolidate the gains made. A foreseeable need is governance training for new RENAMO leaders.

WHAT WE SHOULD FOCUS ON IF WE HAD EXTRA \$\$\$

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129. (C) Needs in Mozambique are enormous, but there are two areas where additional resources could mostly usefully be applied. The first area is counter-terrorism. The GRM is fully cooperative at the political level, and the Mission actively engages with police, military, banking, and diplomatic contacts. We fully participate in training opportunities such as ILEA. However, major resources are needed to help the GRM address the many weaknesses that include a large Muslim population that is extremely poor and vulnerable to outside influence, notoriously porous borders with all its neighbors, a 1500-mile unpatrolled coastline for which the GRM has zero monitoring capacity, and a severely limited response ability in the event of a terrorist attack. The GRM's heavy dependence upon South Africa and the Indian navy for security during the AU Summit bore witness to these weaknesses.

130. (U) The second is education, which, though part of Peace Corps' stock and trade, has not been a major focus of the USG. The lack of human capacity is a serious limiting factor we consistently encounter in all sectors. Many Mozambicans, in and out of government, are well-trained, English-speaking and competent, but that expertise is extremely thin. While we have successfully cultivated Mozambican institutions of higher education through linkages, Fulbright, etc., there remain innumerable opportunities for meaningful assistance in secondary and university education, in addition to girls' education at the primary level.

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